

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MAVOKO CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Mavoko Constituency set out on pages 14 to 39, which comprise the statement of assets and liabilities as at 30 June, 2020, statement of receipts and payments, statement of cash flows and summary statement of appropriation - recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund-Mavoko Constituency as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Presentation of the Financial Statements**

Review of the financial statements revealed errors in presentation as follows:

##### **1.1 Lack of Dates for Signed Reports/Statements**

The statement of management responsibilities, statement of receipts and payments, statement of assets and liabilities, statement of cash flows, and statement of appropriation - recurrent and development combined do not indicate the dates against the signatures as required.

##### **1.2 Progress on Follow of Auditor Recommendations**

The report of progress on follow up of auditor recommendations does not include all issues which were raised in audit report of 2018/2019 financial year. In addition, the report was not signed.

In view of the foregoing, the financial statements as presented by the Fund management do not fully comply with the prescribed reporting template issued by the Public Sector

Accounting Standards Board (PSASB) and the International Public Sector Accounting Standards (IPSAS - Cash Basis) reporting framework.

## **2. Errors and Misstatements in the Financial Statements**

### **2.1 Variances Between Statement of Receipts and Payments and Summary Statement of Appropriation - Recurrent and Development Combined**

Comparison of the statement of receipts and payments and summary statement of appropriations - recurrent and development combined for the year revealed variances between the two set statements as outlined below:

#### **2.1.1 Payments**

The statement of receipts and payments reflects Kshs.125,317,890 as total payments for the year while the summary statement of appropriation - recurrent and development combined reflects an amount of Kshs.125,362,890 as total actual payments resulting in a variance of Kshs.45,000 which is described as unallocated funds.

#### **2.1.2 Receipts**

The statement of receipts and payments reflects Kshs.123,540,876 as receipts from the National Government Constituencies Development Fund (NGCDF) Board while the summary statement of appropriation - recurrent and development combined has a figure of Kshs.126,907,206 resulting to a variance of Kshs.3,361,330.

## **2.2 Unsupported Prior Year Adjustments**

The statement of assets and liabilities reflects a prior year adjustment amounting to Kshs.25,341 which were not supported with relevant documents or a description. In addition, the disclosure Note 14 to the financial statements reflects an amount of Kshs.254,703 in respect of prior year adjustments, and not Kshs.25,341 reflected in the statement.

## **2.3 Cash and Cash Equivalents**

### **2.3.1 Stale Cheques**

The statement of assets and liabilities reflects Kshs.3,700,009 in respect of bank balances as at 30 June, 2020 and as disclosed in note 10A to the financial statements. Examination of the bank reconciliation statement for bank balances as at 30 June, 2020 revealed unrepresented cheques totalling Kshs.5,649,078. No plausible explanation was provided as to why so many cheques had remained unrepresented in the bank by the year end. Further, cheques totalling Kshs.215,000 were stale as at 30 June, 2020 but had not been written back in the cashbook.

In view of the above, the cash and cash equivalents balance of Kshs.3,700,009 was understated by Kshs.215,000 in respect of the stale cheques amount.

## **2.4 Un-reconciled PMC Balances**

Note 17.4 to the financial statements reflects PMC account balances amounting to Kshs.14,383,092 while the supporting Annex 5 to the financial statements reflects a total of Kshs.14,500,543 for the account balances resulting in unexplained variance of Kshs.117,451. Further, the supporting bank statements for PMC Accounts as at 30 June,

2020, indicated a total balance of Kshs.15,442,051 which differs with balances reflected in both Note 17.4 and Annex 5 to the financial statements by Kshs.1,058,959 and Kshs.941,508 respectively.

In the circumstance, the accuracy of PMC account balances of Kshs.14,383,092 disclosed in Note 17.4 to the financial statements could not be confirmed

## 2.5 Compensation of Employees-Variance in Comparative Figure

The statement of receipts and payments reflects an amount of Kshs.5,643,148 in respect of compensation of employees. However, the 2018/2019 comparative balance of Kshs.4,892,585 differs with Kshs.3,647,685 shown in Note 4 to the financial statements resulting to a variance of Kshs.1,244,900 which was not explained or reconciled.

## 2.6 Differences between Summary Statement of Appropriation - Recurrent and Development Combined and Budget Execution by Programmes

Comparison of the summary statement of appropriation - recurrent and development combined and budget execution by programmes and sub-programmes revealed unexplained and unreconciled variances as shown below:

Description	Summary Statement of Appropriation	Budget Execution by Sub-programmes	Variance
	Kshs.	Kshs.	Kshs.
Original Budget	137,367,724	137,367,724	0
Adjustments	60,635,495	60,523,495	112,000
Actual on Comparative Basis - payments	125,362,890	125,317,892	44,998
Budget Utilization Difference	72,730,329	72,573,328	157,001

In view of the differences, the accuracy and fair presentation of the financial statements for the year ended 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Mavoko Constituency Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

## **Other Matter**

### **Budget Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.196,314,931 and Kshs.126,947,206 respectively resulting in a shortfall of Kshs.69,367,725 or 35% of the approved budget. The expenditure was limited to the amount realized and the Fund spent Kshs.126,362,890 or 99% of the receipts during the year under review.

Based on the approved estimates, under funding and expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Mavoko Constituency.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

#### **Basis for Conclusion**

##### **1. Projects implementation**

Review documents relating to project implementation and physical inspections of the projects revealed the following anomalies:

##### **1.1. Lack of Public Participation in Identification and Prioritization of Projects**

Management did not provide evidence of involvement of the residents of the Constituency in the process of identification and prioritization of projects as required under Section 3 (d) of the National Government Constituency Development Fund Act, 2015.

Consequently, the Fund Management was in breach of the law.

##### **1.2. Unsupported Expenditure on Emergency and Environment Projects**

During the year under review, a total of Kshs.5,282,068 was spent on six (6) emergency and environment projects. However, the payments were not adequately supported with relevant documents such as expenditure returns, procurement records, bills of quantities and project files as detailed below:

	<b>Project</b>	<b>Activity</b>	<b>Cost (Kshs.)</b>	<b>Observations</b>
1	Kyumbi Police Post	Construction of 8 door toilets	1,100,000	Project is complete and in use
2	Mlolongo Police Post	Construction of 4 pit latrines to completion	1,847,786	The 4 pit latrines were constructed at Mlolongo Chief's camp instead of Mlolongo police post as stated in the payment vouchers. The project is complete and in use.
3	Kyumbi Police Post	Not indicated	153,465	The Management did not specify what the payment was for at Kyumbi police post.
4	Mavoko Primary School	Fencing compound with concrete poles and chain link, construction of the gate	780,817	The gate has been constructed, the concrete poles have been erected but the fencing with chain link has been partially done
5	Mitatini Primary School	Fencing compound with treated wooden poles and chain link, construction of the gate	700,000	The project is complete and in use.
6	Kwa Mbooi Primary School	Fencing compound with treated wooden poles and chain link, construction of the gate	700,000	The project is complete and in use.
<b>Total</b>			<b>5,282,068</b>	

In the absence of relevant and adequate support documents, it was not confirmed whether the projects were implemented in accordance with the stated specifications and whether value for money was realized from the expenditure of Kshs.5,282,068 incurred on the projects.

### 1.3. Failure to Brand Projects

Physical verification of projects carried out in January, 2021 revealed some completed projects which were not branded. In addition, one project implemented in the 2019/2020 budget was incorrectly branded as having been funded in 2018/2019 budget. Details of the projects referred above are as detailed below:

<b>Project</b>	<b>Activity</b>	<b>Cost (Kshs.)</b>	<b>Observations</b>
1. D.E.B KMC Primary School	Construction of two classrooms	2,200,000	Project was completed and handed over to the School but had not been branded.
2. St Augustine Secondary School	Construction 8 door ablution block	1,400,000	The project was completed and in use but it was wrongly branded as having been done in 2018/2019 instead of 2019/2020
3. St. Paul's Primary School	Construction of two classrooms	2,200,000	Project is complete but not branded.
4. Githunguri Jet View Primary School	Construction of 4 classrooms storey block	7,500,000	Project was completed and in use but was not branded.

To this extent, the management was in breach of the law.

#### 1.4. Poor Workmanship in Projects

Physical verification which carried out in January, 2021 revealed instances of poor workmanship resulting from failure to implement projects in accordance with the specifications as per the signed contract agreements as detailed out in table below:

<b>Project</b>	<b>Activity</b>	<b>Cost (Kshs)</b>	<b>Observations</b>
1. D.E.B KMC Primary School	Construction of two classrooms	2,200,000	<ul style="list-style-type: none"><li>▪ The floor of the two classes poorly done and require urgent repairs</li><li>▪ One hall built instead of two classrooms as per the code list.</li></ul>
2.St. Paul's Primary School	Construction of two classrooms	2,200,000	<ul style="list-style-type: none"><li>▪ The project was completed and in use but the classrooms floor poorly done and needs repair.</li></ul>
3.Githunguri Jet View Primary School	Construction of 4 classrooms storey block	7,500,000	<ul style="list-style-type: none"><li>▪ The classrooms floor is poorly done and requires urgent repair.</li></ul>
4.Ndovoini Primary School	Construction of two classrooms	2,000,000	<ul style="list-style-type: none"><li>▪ The classrooms were completed, handed over and in use but the floors and walls were poorly done and require urgent repairs</li></ul>
<b>Total</b>		<b>13,900,000</b>	

In view of the foregoing, value for money may not be realized from the expenditure of Kshs.13,900,000 incurred on the projects.

#### 1.5. Unapproved Reallocation of Funds

Physical verification of projects in January, 2021 revealed that an amount of Kshs.1,847,786 which had been allocated to Mlolongo Police Post for construction of a four-door pit latrine was instead used to construct a similar pit latrine at Mlolongo Chief's Camp. No supporting documents were provided to show that the reallocation of funds was approved by the National Government Constituencies Development Fund Board.

To this extent, the Fund Management is in breach of Section 6(2) of the National Government Constituencies Development Fund Act, 2015.

#### 2. Irregular Procurement of Goods and Services

During the year under review, the Management procured goods at a cost of Kshs.1,187,675 from various suppliers. However, payment vouchers provided for audit review were supported by cash sale receipts with no documents showing details of the procurement method used. Further, the Fund did not maintain a list of prequalified suppliers during the year under review as required by Section 57 (1) of the Public Procurement and Assets Disposal Act, 2015 and it was therefore not clear how the suppliers were identified.

In the circumstances, value for money may not have been realized from the expenditure of Kshs.1,187,675 incurred on goods and services.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Lack of Risk Management Policy and Disaster Recovery Plan**

As at the time of the audit, the Fund has not yet formulated a Risk Management Policy. Further, there was no Disaster Recovery and Business Continuity Plan in place, contrary to the provisions of Section 165(1)(b) of the Public Finance Management Act, 2012. The Fund therefore lacks a formal basis of evaluating risks and associated impact, and the required mitigation measures in the event of occurrence of risks.

To this extent, Fund management is in breach of the provisions of Regulation 165(1)(b) of the Public Finance Management Act (National Government) Regulations, 2015.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Fund or cease operations.

Management is also responsible for the submission of the Fund's financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the Fund's activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Management is responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the Fund monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may



occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**11 February, 2022**